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ABSTRACT

Historically, school finance has been concerned with three things: adequate provision, equity, and efficiency. While the first of these has been substantially achieved with free public education and a stabilizing student population, recent court cases remind us that the term "adequate educational program" has never been conclusively defined, particularly in relation to inflating educational costs. Concerns involving equity have centered on attempts to equalize wealth, special needs, and educational costs among the districts of a state. Wealth equalization proposals in particular have been resisted in the courts. Lack of agreement on educational goals and technology has limited attempts at efficiency to restrictions on revenues and expenditures, often through the inadequate device of budget elections. This document, directed toward those already familiar with the basic concepts of school finance, briefly discusses these issues as they apply to the situation in New York, referring to court cases and examples from other states. The author concludes that it would be wiser to consider fundamental changes in New York's school finance system than to tinker with present formulas. (Author/PGD)

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RE: WHITHER SCHOOL FINANCE IN NEW YORK?

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RE: WHITHER SCHOOL FINANCE IN NEW YORK?

I have been asked to speak on the national political scene and its implications for school finance reform in New York. The duplication between this topic and those assigned Charles Benson and Lyell Johns is so great that I will comment only briefly on the national scene before going on to other subjects.

First, we cannot look to the possibility of large amounts of additional money from the federal government. Carter is telling his cabinet to reduce budget requests, not increase them. In addition, in our own self-interest, we should not look for additional federal money, for most of it will be raised from the income tax, and we know that a state with high personal income will export more money to Washington than it will ever receive in return.

Second, we cannot look to much help from the federal judiciary, for they have foreclosed a major part of the problem with the decision in Rodriguez.

That leaves us with whatever guidance we can get from what is going on in other states, which has been discussed by others. I feel I can best serve my function here by attempting to categorize the areas of concern for school finance reform, and then suggesting some things we ought to look into in each of them.

Adequate Provision

Historically, school finance has been concerned with three things: adequate provision, equity, and efficiency. For many

years the first of these was overriding, as we provided free education to all children, extended public education through the high school years, and lengthened the school year. A great deal of that pressure has now abated, for we are now educating all children, we are providing free education through twelfth grade, and the length of the school year seems to have stabilized. Most importantly, the number of pupils has ceased growing. However, the question of what constitutes adequate provision is still with us. It has been raised in the school finance litigation of several states, notably New Jersey, Washington, and Ohio. In these states the suits were not on the basis of an equal protection clause, but on constitutional provisions for a "thorough and efficient" educational system, or for "ample provision" of education for all children. This, then, brings us to a major question which may have to be addressed: What constitutes an adequate educational program for normal children? Note that Serrano does not address this question. Presumably an average expenditure of $100 per student per year would satisfy the Serrano criterion, so long as any differences were not wealth-related. The New Jersey and Washington decisions require the state to define an adequate educational program. Whether this will be required in New York is difficult to say, but we should be prepared for the possibility. Research does not tell us what is adequate, so we must look elsewhere. One way such a program could be defined is through a set of input prescriptions: staffing ratios, per pupil expenditures for supplies, square feet of classroom space per pupil,etc. This is substantially better than simply defining a number of dollars per pupil expen-

diture in that it allows for differences in the cost of providing equivalent services in different parts of the state, and automatically keeps expenditure requirements up-to-date from year to year. However, it tends to freeze present instructional patterns into the law.

A different approach was urged on the court in the Washington case, where it was referred to as the "collective wisdom" approach. Adequate provision is defined as what the people of the state, through their votes on school budgets, believe it to be. The state must guarantee and provide (perhaps through a state property tax) the average expenditure per pupil in the preceding year. Pupils could be weighted for need and cost differences. Any expenditure above this average is a local luxury, since by definition it constitutes more than adequate provision. As such, it would be supported by unequalized local taxes. However, these additional expenditures would be part of the average for the following year.

A second problem that is clearly concerned with adequacy is that of keeping any formula up-to-date. New York's present formula is a prime example of a formula that was adopted at a point in time with the implicit assumption that there would be no inflation and that property values per student would not increase. The result of that, of course, is that everyone ends up on save harmless. There are ways to keep a formula up-to-date. What is required is a recognition of the problem and some ingenuity. Oregon is an example of a state where this has been done, and with the result that the same basic formula

has been in effect for twenty years. The foundation guarantee is increased each year by the average of last year's expenditures per pupil to those of the year before. One might think that this could soon break the state treasury, but it doesn't. Instead, the legislature appropriates what it thinks right. The adjustment between appropriation and foundation guarantee is made by calculating the required local tax rate for foundation purposes at a rate that will just distribute all of the appropriation at the set foundation guarantee.

Equity

The second set of concerns have been those involving equity. We should be concerned with equity in three areas: equalization of differences in district wealth, differences in extent of pupil need, and differences in the cost of providing equivalent educational services. The first of these, wealth differences, has been the one most frequently addressed by the courts.

Wealth Equalization

The methods used for equalizing wealth differences can be put in a hierarchy. First is the flat grant, of a certain number of dollars per pupil, regardless of district wealth. Despite the fact that this state grant does not depend upon district wealth, it is equalizing in the sense that variations in expenditure become a smaller percentage of total expenditure. Taken to an extreme, if the state were to distribute a flat grant of $3000 per student, most districts might elect not to spend more than that, and the variation in expenditure would be less absolutely and proportionately than now.

The second method of equalization is the foundation formula. It is more general than the flat grant, for the flat grant can be seen as a special case of the foundation program in which the required local effort is zero. Probably neither the flat grant nor the foundation program would meet the Serrano criterion because they allow unequalized local taxation. However, they would meet the "collective wisdom" criterion if there were provision to keep the flat grant or the foundation sufficiently high and up-to-date.

Percentage equalizing, which New York had from 1962 to 1973, can be thought of as a more general case of the foundation program, in which the local effort rate is allowed to vary, with the foundation varying along with it. Power equalizing, now adopted to some extent by 22 states, is a more general case of percentage equalizing, in which the guarantee schedule need not be linear. Finally, full state assumption is different than any of the others in that it allows no local decision-making about size of budget.

One of the most important questions to be answered, then, is <u>What kind of wealth equalization would meet the criteria that might be proposed by a court</u>? While a final determination by the Court of Appeals on Levittown v. Nyquist is probably several years away, we should be thinking about it. While the flat grant and foundation programs meet the collective wisdom and not the Serrano criterion, the percentage equalizing and power equalizing programs (if they include recapture) meet the Serrano criterion but not that of the collective wisdom approach. Full state assumption meets both criteria.

Need Equalization

The second area of importance to equity is that of differential pupil need. The most important question to be answered here is how we can decide what constitutes an adequate educational program for children with special needs. There is a good deal of conventional wisdom abroad concerning what constitutes a good program for special need students, perpetuated by those involved, but there is no way of knowing whether present good practice is anywhere near optimal. Thus approaches that attempt, as NEFP did, to find exemplary programs and cost them out are faced with that problem, compounded by the problem of getting good program accounting data. On the other hand, an approach featuring reimbursement of excess costs for special programs either must not reimburse 100% of excess cost (penalizing high need districts) or must set a maximum reimbursement rate (which implies the same sort of knowledge about costs and best practice that weighting implies). We would be ahead of where we are now, though, if we had some good cost data for what are considered good programs for special need students.

Cost Equalization

The third equity area is that of compensating for the fact that it costs more to provide equivalent educational services in one district than it does in another. This may be the result of differences in the cost of such things as fuel and snow removal, or in the cost of land for construction. All of these are probably less important, however, than the differences in the cost of hiring equivalent quality teachers resulting from differences in the attractiveness of districts as a place to teach. What is needed,

to disentangle these costs from the extra money paid teachers because the community has a taste for higher quality, is an econometric study such as that done by ECS in Missouri.

Another area of cost differences that has been recognized for a long time is that of differences in the cost of providing home-to-school transportation. The present New York transportation formula is a good example of how not to do it. Although the transportation reimbursement is only a small part of the total state aid, the paper work necessary is greater than that for all of the other programs put together. The mechanics and complexity of the system encourage those who take the trouble to master the system to rip it off, legally, for undeserved reimbursement. In addition, the 90% reimbursement rate does little to encourage local efficiency in the operation of its bus system. A much better alternative would be one similar to that in use in Florida, and proposed by me in New York, which would use a multiple regression to make an accurate estimate of the transportation cost of a district based on exogenous factors. The district would be provided with the predicted amount. If it could operate the transporation system for less, it could use the difference in other educational programs; if it cost more to operate the system, presumably because of inefficiency, the difference would have to be made up out of other revenues.

A third area of cost equalization that is important is that of capital outlay and debt service. This is one of the few areas in which New York does a good job. As a result, it should be low on the priority list of things to be looked at.

Efficiency

The last area of concern traditionally is that of efficiency. It has been a continuing concern all along, and continues to be. Education takes more of our state-local government dollar than any other function, and it is not surprising that there should be such concern with increasing costs at a time when the student population is declining and the test scores are too. However, the usual industrial concepts of efficiency do not work well in education, because of lack of agreement on goals or on the technology for reaching them. Thus the most frequent way of striving toward efficiency is to limit the rate of expenditure of school districts. In the West and South this has usually taken the form of tax rate limitations, while in the Northeast annual budget votes have been the usual method. Both have their flaws. Rapid increases in assessed valuations in recent years have made tax rate limitations ineffective. Budget votes are usually an all-or-nothing situation which can result in school district shutdowns, as in Oregon and Ohio. On the other hand, the safety valve of the austerity budget in New York has made a mockery of the budget vote.

In recent years, as part of the price of school finance reform, a number of states have instituted instead revenue or expenditure limits. Examples of these are California and Iowa. An important question to be addressed in New York is what sort of limits are to be placed on increased spending by school districts, and what the effects of them would be.

There are a few areas in which the industrial concept of efficiency can be applied. These are mainly in the business manage-

ment area of school operations. Where the system can encourage such efficiency, it should do so. A good example is the type of formula described earlier for transportation. A poor example is to make the head custodian in the school an independent contractor without a careful specification of the job to be done.

Other Concerns

An important question, after deciding upon a good program of school finance, is that of phasing in from the present system to the new one. The present save-harmless plans do not work, as is painfully obvious. Much better would be a disappearing save-harmless, in which the district would in the first year receive its new entitlement plus 4/5 of the difference between its new and old entitlements. In the second year it would receive 3/5 of the difference, the next year 2/5, and so on until the save-harmless provision had disappeared after five years.

An extremely important question which is germane to all of the areas so far discussed is the question of what measure and what criteria we use to decide whether a proposed plan is a good one. A system by which the proposal is simply cranked into the simulation and we find out which districts get more or less than presently is almost guaranteed to result in marginal changes. What is needed are agreed-upon measures of what constitutes a fair distribution. This is not an easy job. A few people are working on the problem, but without definitive results as yet.

I have deliberately chosen not to address such problems as whether to use WADA, RWADA, TAPU, FTE, or SNAFU. While I recognize that the measure used can change the distribution of money, I

consider it tinkering with no logical basis. Thus, it is the sort of thing best done by those who have the simulation after a good general program is decided upon.

I have also chosen not to address directly urban problems as such. I believe that the city school districts will be adequately financed if we do a good job of handling need and cost of differentials.

Finally, the declining enrollment situation is a much overrated problem. It arises solely from the difficulty of attaining short-term equilibrium. This can be solved by letting districts use last year's ADA if they wish, or the average of several previous years. That way the reward will cease when stability arrives.

In general, I strongly favor using the 842 money to look at some fundamental changes. We will waste the money if we use it to tinker with the present formula.